SMITH AFFILIATED CAPITAL

January Investment Review

2026

Doing More with Less: A Theme for 2026

Overview

January reinforced a late-cycle investment environment defined less by stress and more by repricing. Across the economy, the dominant theme remains efficiency: businesses, households, and policymakers are increasingly focused on productivity, cost discipline, and selective capital deployment rather than incremental growth fueled by leverage or policy accommodation.

The Federal Reserve began the year holding policy rates steady, signaling comfort with a stance that is near neutral and increasingly data dependent. This reflects an economy that is slowing unevenly rather than contracting outright. Labor markets continue to cool beneath the surface as wage growth moderates and job creation slows, even as headline employment figures remain relatively stable. At the same time, productivity gains—driven in part by automation and artificial intelligence—are allowing output to expand with fewer incremental workers.

Inflation progress remains uneven but constructive. Goods inflation has largely normalized, while services inflation continues to decelerate gradually. Affordability pressures, however, remain a constraint for lower- and middle-income households, reinforcing a bifurcated expansion that continues to influence sector-level performance across markets.

Against this backdrop, financial markets adjusted rather than deteriorated. Volatility increased late in the month, but most major asset classes delivered positive returns, supported by resilient growth and elevated starting yields.

US equities posted modest gains, with the Dow Jones Industrial Average up 1.80%, the S&P 500 higher by 1.44%, and the NASDAQ advancing 0.97%. Precious metals were standout performers, with gold rising 8.59% and silver advancing 11.23% along with Commodities collectively up 10.6%, while the US dollar declined 1.35%.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	1.80	1.80	11.65	13.92	15.06
S&P 500	1.44	1.44	16.32	15.54	14.99
NASDAQ	0.97	0.97	20.34	18.77	18.03
Equity EM Mkts.	8.86	8.86	43.63	10.52	16.55
EM Bond Mkt.	0.36	0.36	10.34	4.20	7.29
US Agg. Bond	0.11	0.11	6.85	1.88	5.03
Municipal Bond	0.94	0.94	4.70	2.32	5.18
US High Yield	0.48	0.48	7.58	6.64	7.35
Commodity	10.36	10.36	22.40	6.95	13.35
COMEX Silver	11.23	11.23	131.92	16.80	29.65
COMEX Gold	8.59	8.59	60.27	13.60	13.83
Brent Oil	16.17	16.17	17.07	19.24	35.97
Dollar Index	-1.35	-1.35	-10.02	-2.63	6.58

Taxable Markets

Taxable fixed income entered 2026 with a strong income backdrop, and January reinforced that returns in this environment are being driven more by yield income than by price appreciation. Treasury yields moved modestly higher during the month, particularly in longer maturities, which limited price gains in long-duration bonds while leaving shorter and intermediate maturities relatively resilient.

Sector differentiation—not broad market direction—was the dominant theme. Securitized assets delivered the strongest performance, supported by high income levels and steady investor demand. Agency mortgage-backed securities benefited from predictable cash flows and limited sensitivity to modest rate changes, while inflation-indexed bonds (TIPS) also performed well as investors continued to seek protection against lingering inflation uncertainty. These dynamics aligned with portfolio positioning, as both sectors remain overweight.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Agg. Bond	-0.23	0.33	0.11	0.11	5.95	4.36
US Treasury	-0.39	0.29	-0.09	-0.09	5.83	3.97
US Agency	-0.20	0.32	0.12	0.12	3.26	4.00
Corporate	-0.21	0.39	0.18	0.18	6.81	4.84
Tax.Muni	-0.32	0.38	0.05	0.05	7.70	4.86
TM/BABs	-0.79	0.49	-0.30	-0.30	8.61	5.47
Agency MBS	0.05	0.36	0.41	0.41	5.60	4.64
Gov/Credit	-0.32	0.33	0.002	0.002	6.12	4.27
TIPs	0.21	0.10	0.31	0.31	4.79	4.10
AAA Corp	-0.59	0.35	-0.25	-0.25	10.02	4.74
AA Corp	-0.40	0.35	-0.05	-0.05	7.85	4.66
A Corp	-0.25	0.37	0.12	0.12	6.81	4.71
BBB Corp	-0.12	0.40	0.28	0.28	6.56	5.01

Investment-grade corporate bonds also produced positive returns, though performance was more muted. Corporate spreads tightened modestly during the month, reflecting stable fundamentals and continued demand, but valuations remain relatively full following several years of strong performance. As a result, returns were driven primarily by income earned over time—often referred to as *carry*, meaning the coupon income investors receive while holding the bond — rather than from bonds becoming materially more expensive.

January saw heavy issuance, particularly from financial institutions and communications companies, which was absorbed smoothly thanks to strong fund inflows and light dealer inventories. This balance between supply and demand kept spreads stable but limited further tightening. Performance varied by sector, with utilities and energy outperforming, while select consumer and media sectors lagged.

Corporate credit remains a reliable income source, with opportunities increasingly driven by sector and issuer selection rather than broad market exposure.

Tax-Exempt Markets

Municipal bonds began 2026 on solid footing, delivering a 0.9% total return in January and outperforming most taxable fixed income sectors despite increased volatility in Treasuries driven by broader macro repricing. Strong technicals—most notably heavy reinvestment demand and positive fund flows—allowed the market to absorb roughly $35 billion in issuance against approximately $32 billion in principal and interest payments with little disruption. Municipals largely ignored rate volatility affecting taxable markets, reinforcing their role as a stability-oriented allocation.

Performance leadership was concentrated in the intermediate portion of the curve, particularly the 7-year through 15-year segment. The intermediate municipal index gained approximately 1.1% in January, more than twice the return of longer-dated indices. This segment benefited from a favorable combination of income, moderate sensitivity to rate changes, and *roll-down*—the tendency for bonds to naturally increase in value as they move closer to maturity. Tax-equivalent yields exceeded 5.0%, drawing investor demand toward the 8- to 15-year range.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	0.57	0.37	0.94	0.94	6.77	3.45
1-Yr Muni (1-2)	0.19	0.37	0.56	0.56	1.27	2.43
3-Yr Muni GO (2-4)	0.37	0.37	0.74	0.74	2.25	2.33
5-Yr. Muni GO (4-6)	0.59	0.36	0.95	0.95	3.50	2.41
7-Yr. Muni (6-8)	0.72	0.36	1.08	1.08	4.77	2.83
10-Yr. Muni (8-12)	0.82	0.35	1.17	1.17	5.79	3.06
15-Yr. Muni (12-17)	0.94	0.36	1.30	1.30	7.22	3.53
30-Yr. Muni (22+)	0.11	0.39	0.50	0.50	11.49	4.57
AAA Muni	0.54	0.36	0.90	0.90	6.99	3.29
AA Muni	0.57	0.37	0.93	0.93	6.63	3.31
A Muni	0.61	0.37	0.98	0.98	6.76	3.72
BBB Muni	0.56	0.38	0.94	0.94	7.60	4.38
Gen. Oblig.	0.57	0.36	0.92	0.92	6.37	3.19
State GO	0.57	0.37	0.93	0.93	5.41	2.91
Local GO	0.57	0.35	0.92	0.92	7.03	3.37
Revenue	0.57	0.37	0.95	0.95	6.97	3.56
California	0.62	0.36	0.98	0.98	6.52	3.20
New York	0.56	0.37	0.93	0.93	7.26	3.53

Shorter maturities also contributed positively. The 3-year municipal index returned 0.74% with limited interest-rate sensitivity, while the 7-year index returned 1.08% with moderate sensitivity. Together, short and intermediate maturities continue to offer attractive value. Longer-dated municipals softened modestly as issuance increased, though absolute yields remain elevated by historical standards. Credit conditions across the municipal market remain stable, with general obligation and revenue bonds tracking the broad market closely.

Overall, January reinforced that barbell strategies remain well positioned in the municipal market. In a range-bound rate environment, portfolios that combine short-duration stability with intermediate income generation have historically performed well.

Equity Markets

Equity markets entered 2026 with positive momentum but growing sensitivity to valuation and leverage. January's modest gains masked continued dispersion beneath the surface, as leadership broadened beyond a narrow group of mega-cap stocks toward companies capable of translating investment into durable productivity and margin expansion.

Affordability pressures continue to weigh on consumer-facing sectors tied to lower-income households, while companies serving higher-income consumers benefit from balance-sheet strength and the wealth effect. Elevated margin balances remain a risk factor, as periods of forced deleveraging can amplify volatility and push markets into oversold conditions even in the absence of fundamental deterioration.

Precious Metals and Digital Assets

Real assets were among the strongest performers in January. Gold and silver delivered sizable gains despite a sharp late month pullback, reflecting continued demand for protection amid fiscal strain, geopolitical uncertainty, and currency volatility.

Digital assets continue to signal a different potential path. While often discussed alongside gold, Bitcoin's role is distinct, emphasizing asymmetric upside tied to adoption and market structure rather than capital preservation. Improving regulatory clarity and institutional access suggest the potential for renewed interest following a period of relative underperformance.

Strategy Outlook

January reinforced a central message for 2026: efficiency matters. Market resilience increasingly depends on income generation, balance-sheet strength, and disciplined risk management rather than policy accommodation or broad multiple expansion.

We continue to favor income-oriented fixed income with an emphasis on securitized assets, TIPS, and front-to-intermediate maturities. In tax-exempt portfolios, short and intermediate maturities remain attractively positioned, with barbell strategies well suited to a range-bound rate environment. Equity exposure remains selective and quality-focused, while real assets and digital assets serve differentiated roles as portfolio diversifiers.

Markets are adjusting, not breaking - patience and selectivity remain essential as 2026 unfolds.